RURAL UTAH CHILD DEVELOPMENT (A Non-Profit Organization)

FINANCIAL STATEMENTS

November 30, 2007

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Jensen & Keddington, P.C.

Certified Public Accountaints

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA Gregory B, White, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Utah Child Development

We have audited the accompanying statement of financial position of Rural Utah Child Development (a non-profit Organization) as of November 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Utah Child Development as of November 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

in accordance with Government Auditing Standards, we have also issued our report dated August 21, 2008 on our consideration of Rural Utah Child Development's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Utah Child Development taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Jenson & Leddingto

August 21, 2008

RURAL UTAH CHILD DEVELOPMENT STATEMENT OF FINANCIAL POSITION November 30, 2007

Assets

, B

Cash Accounts Receivable: U.S. Department of Agriculture Head Start Early Reading First Other Prepaid expenses Deposits	25,761 18,233 × 99,414 53,036 13,530 5,915 500 216,389
U.S. Department of Agriculture Head Start Early Reading First Other Prepaid expenses	99,414 53,036 13,530 5,915 500
Head Start Early Reading First Other Prepaid expenses	99,414 53,036 13,530 5,915 500
Early Reading First Other Prepaid expenses	53,036 13,530 5,915 500
Other Prepaid expenses	13,530 5,915 500
Prepaid expenses	5,915 500
	500 ·
	216 380
Total Current Assets	210,505
Property and equipment - net	811,205
Total Assets <u>\$</u>	1,027,594
Liabilities and Net Assets	
Current Liabilities	
Accounts payable \$	181,670 🗸
Accrued expenses	98,259
Note payable	4,326
Total Current Liabilities	284,255
Long-Term Liability	
Note payable	102,692
Total Long-Term Liability	102,692
Total Liabilities	386,947
Net Assets	
Unrestricted	640,647
Total Net Assets	640,647
Total Liabilities and Net Assets	1,027,594

RURAL UTAH CHILD DEVELOPMENT STATEMENT OF ACTIVITIES For Year Ended November 30, 2007

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·		
Unrestricted Net Assets		
Support		
Federal Grant PA22	\$	3,077,008
Federal Grant PA20		36,290
Federal Grant PA25		555,842
		~ 13,476 `
In-kind Services and supplies		927,644
Early Reading First Grant		965,401
USDA Food Grant		130,209
Other program revenue		19,422
Total Support		5,725,292
Expenses	•	
Program services		
Head Start program PA22'		2,791,992
Head Start program PA22 In-Kind		846,159
Head Start program PA20	,	36,290 ~
Head Start program PA25	•	5 64,67 1
Head Start program PA25 In-Kind		81,484
Head Start program PA26		13,476
Early Reading First Grant		9 65,4 01
USDA Food Grant		130,209
Other program expenses		19,421
Total Program Services		5,449,103
Support Services		
Head Start program PA22		277,588
Total Expenses		5,726,691
Increase (Decrease) in Unrestricted Net Assets		(1,399)
Net Assets at November 30, 2006		642,046
Net Assets at November 30, 2007	\$	640,647
• **		

RURAL UTAH CHILD DEVELOPMENT STATEMENT OF FUNCTIONAL EXPENSES For Year Ended November 30, 2007

						Progr	Program Services	3							•			
1	PA 22	PA 22	PA 20		PA 25	A- 1	PA 25	Y.	PA 26	USDA		ERF/	Ĕ	Total	Support	t i	Ş	1
		In-Kind		1		Š.	In-King			1000	7	Omer	21.7	r rogram	DCI VICES	8		/tar
	\$ 1,400,116	\$ 428,494	₩	49	344,618	64)	45,954	÷		69	6/9	965,401	e9 €9	3,184,583	\$ 210,294	294	m	3,394,877
	392,369	161,878			89,367		18,472						•	662,086	54,	54,850		716,937
	51,368	60,514	27,556	9	58,427		8,109		13,476				•••	219,450	Ý	6,669		226,119
																	٠,	
	263				1,822									2,085				2,085
	192,949	195,273	•		21,892		8,949						`	419,063		413		419,476
	37,412	,			2,538					130,209			•	170,159	•			170,159
	17,774			,	815									18,589				18,589
	301,321			٠	•								•••	301,321				301,321
	116,189				19,173									135,362	÷	1,554		136,916
	10,495	٠												10,495				10,495
	104,110	,			10,515									114,625				114,625
	27,747				2,560									30,307		436		30,743
	53,599				8,829	٠.				٠			,	62,428				62,428
1	86,280		8,734	*	4,115		τ,		1			19,421		118,550	£,	3,372		121,922
-	2.791.992	\$ 2,791,992 \$ 846,159 \$ 36,290	\$ 36.29	49	564.671	6-3	81.484	(A	13,476	\$ 130,209	69	984,822	69 69	5,449,103	\$ 277,	277,588		5,726,691
II.				-					64									

^{*} Depreciation expense is permitted by Generally Accepted Accounting Procedures, however, it is not for the Schedule of Expenditures of Federal Awards since federal funds were used to purchase capital assets.

The accompanying notes are an integral part of these financial statements.

RURAL UTAH CHILD DEVELOPMENT STATEMENT OF CASH FLOWS For Year Ended November 30, 2007

Cash Flows From Operating Activities		
Decrease in unrestricted net assets	\$	(1,399)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided (used)		
Depreciation Gain on sale of building recorded as grant revenue		62,428
(Increase) decrease in operating assets: Accounts receivable - net Prepaid expenses		89,513 16,952
Increase (decrease) in operating liabilities: Accounts payable Accrued liabilities		47,512 (766)
Net Cash Provided by Operating Activities	######################################	214,240
Cash Flows From Investing Activity		
Purchase of property and equipment	Bearing the Control of the Control o	(55,714)
Net Cash Used by Investing Activity	-104-00-0-4991	(55,714)
Cash Flows From Financing Activity	•	
Principal payments on note payable	-	(5,313)
Net Cash Used by Financing Activity	***************************************	(5,313)
Net Increase in Cash		153,213
Cash Balance, Beginning of Year		(127,452)
Cash Overdraft Balance, End of Year	\$	25,761
Supplemental Disclosures of Cash Flow Information	•	
Cash paid during the year for: Interest	\$	10,495

RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Rural Utah Child Development (the Organization) was organized as a Utah private non-profit corporation under the provisions of chapter 6 of Title 16, Utah code Annotated, 1953 on March 6, 1966. The Organization is to administer and operate Head Start and Early Head Start programs throughout the southeastern part of the State of Utah, and is funded by grants from the Department of Health and Human Services and from the Department of Education.

Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Concentration of Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risk on cash and cash equivalents.

The Organization receives substantially all of its funding from governmental sources. Decreases in governmental support would have an adverse effect upon the Organization.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Receivables are written off when they are determined to be uncollectible. The allowance for doubtful accounts at November 30, 2007 was \$0.

Property and Equipment

The Organization capitalizes all equipment acquisitions in excess of \$5,000. Purchased property and equipment is capitalized at cost, where donated as support at their estimated market value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Substantially all of the property and equipment have been purchased with funds from the Department of Heath and Human Services. In the event that these items are disposed of, the Department of Health and Human Services may require any proceeds be refunded to them.

RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Property and Equipment (Continued)

A provision for depreciation of each asset has been computed using the straight-line method over its estimated useful life, which range from 5 to 30 years. The cost of the assets, less the estimated residual value, determines the depreciable basis.

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of November 30, 2007, the Organization did not have any temporarily or permanently restricted net assets.

Income Taxes

The Organization qualifies as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and therefore, has no provision for income taxes.

Grant Revenue

Grant revenues are recognized as expended up to the authorized grant award. The federal grants awarded to the Organization relating to funds included in this audit report consist of the following:

- a. U.S. Department of Health and Human Services, Head Start Grant No. 08CH0059/41, grant period December 1, 2006 through November 30, 2007. This grant is restricted for the purpose the grant was awarded and any excess is to be returned to the funding agency.
- b. Utah State Office of Education Grant for periods October 1, 2006 through September 30, 2007 and October 1, 2007 through September 30, 2008. These grants are restricted for the purposes the grants were awarded and any excesses are to be returned to the funding agency.
- c. U.S. Department of Education, Early Reading First Grant No. S359B060045, grant period October 1, 2006 through September 30, 2009. This grant is restricted for the purpose the grant was awarded and any excess is to be returned to the funding agency.

Pension Plan

The Organization sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are based on a percentage of gross wages under Code Section 401K deferment. For the period ended November 30, 2007 the amount of pensions expense was \$156,094.

Contributed Support

The Organization occupies at reduced or no charge certain premises owned by private individuals. The estimated fair rental value of the premises is reported as support and expense in the period in which the premises are used.

RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Contributed Support (Continued)

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization programs, principally in educational assistance. The value of this contributed time is accounted for by recognizing as support and expense the numbers of hours provided multiplied by the wage rate that would have to be paid if the volunteers were employees of the Organization.

Supplies and transportation are provided by various individuals and entities at reduced or no cost to the Organization. The value of these supplies and transportation is accounted for by recognizing as support and expense the fair value of the supplies or transportation in excess of actual payment as if actual cash payment had occurred.

Advertising

The Organization expenses advertising costs as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of November 30, 2007.

- :		seginning Balance	A	dditions	De	letions	Ending Balance
Land	\$	135,100	\$		\$	•	\$ 135,100
Building	٠.	810,945		•		•	810,945
Vehicles		284,247		-		-	284,247
Office equipment		178,232		16,205			 194,437
Center equipment		147,483		39,509			 186,992
		1,556,007		55,714		•	1,611,721
Accumulated depreciation		(738,088)		(62,428)			 (800,516)
	\$	817,919 [.]	\$	(6,714)	\$	_	 811,205

RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 NOTE PAYABLE

Note Payable consisted of the following as of November 30, 2007.

Note payable to a bank. Interest is LIBOR + 4.2% which was 9.402% at

November 30, 2007. Monthly principal and interest payments of \$1,216 with a

maturity date of March 2021. This Note is secured by the Organization's

Huntington center. \$ 107,018

Less current portion (4,326)

\$ 102,692

As of November 30, 2007, principal payments are scheduled to be as follows:

<u>Year</u>				
2008	•	•	\$	4,326
2009				5,185
2010				6,253
2011	•			6,867
2012				7,542
2013-2017				50,379
2018-2022		,		26,466
			\$.	107,018

NOTE 4 LEASE COMMITMENTS

The Organization presently uses various facilities, which are not owned by Organization, to provide office space and classrooms. These facilities are leased under short-term agreements that can be renewed under similar terms contingent upon grant funding being renewed. Lease payments for the year ended November 30, 2007 were \$98,645.



Jensen & Keddington, P.C.

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA Gregory B. White, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors Rural Utah Child Development

We have audited the accompanying financial statements of Rural Utah Child Development (a non-profit Organization) as of and for the year ended November 30, 2007, and have issued our report thereon dated August 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Utah Child Development's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Utah Child Development's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Utah Child Development's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as items B number 1 through 2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Utah Child Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items B number 1 through 2.

We also noted certain additional matters that we have report to management in the Schedule of Finding and Questioned Costs section of this report.

Rural Utah Child Development's response to the findings identified in our audit is described in the accompanying Schedule of Finding and Questioned Costs section of this report. We did not audit Rural Utah Child Development's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Leddyto

August 21, 2008



Jensen & Keddington, P.C. Certified Public Accountants

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA Gregory B. White, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Board of Directors Rural Utah Child Development

Compliance

We have audited the compliance of Rural Utah Child Development (a non-profit Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended November 30, 2007. Rural Utah Child Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Utah Child Development's management. Our responsibility is to express an opinion on Rural Utah Child Development's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Utah Child Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rural Utah Child Development's compliance with those requirements.

In our opinion Rural Utah Child Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended November 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items C numbers 1 through 2.

Internal Control Over Compliance

The management of Rural Utah Child Development is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rural Utah Child Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rural Utah Child Development's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Rural Utah Child Development's response to the findings identified in our audit is described in the accompanying Schedule of Finding and Questioned Costs section of this report. We did not audit Rural Utah Child Development's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of audit committee, management, Board of Directors and others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James + Kedeligter August 21, 2008

RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Direct Program:			•
PA 22 Head Start	93.600	NA ·	\$ 3,077,008
PA 20 CDA Training	93.600	NA	36,290
PA 25 Early Head Start	93.600	NA	555,842
PA 26 Early Head Start	93.600	NA	13,476
Total U.S. Department of Health and Human Services U.S. Department of Education			3,682,616
Direct Program:			
Early Reading First	84.359B	· NA	965,401
Total U.S. Department of Education			965,401
U.S. Department of Agriculture			
Pass Through The Utah State Office Of Education Food Distribution	10.558	G-4	130,209
Total U.S. Department of Agriculture		•	130,209
Total Federal Financial Assistance			<u>\$ 4,778,226</u>

See notes to Schedule of Expenditures of Federal Awards.

RURAL UTAH CHILD DEVELOPMENT NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2007

Significant Accounting Policies

The following information regarding the Schedule of Expenditures of Federal Awards is provided to assist the reader in understanding the accounting policies regarding, and the nature of the federal awards.

- a. Basis of Accounting The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting, the same basis used by the Organization in its financial reporting. Receivables are recorded when appropriate program expenditures are made and the Organization has a claim for reimbursement. For purpose of the Schedule of Expenditures of Federal Awards, the Organization considers equipment that has been capitalized, purchased with Federal fimds, to be expenditures.
- b. Depreciation is not included in the Schedule of Expenditures of Federal Awards because all property and equipment has been purchased with Federal grant money. Therefore, including depreciation would result in the Organization being reimbursed for the expenditure twice.
- c. Pass-Through Source of Awards The Organization receives the majority of its federal award programs from the U.S. Department of Health and Human Services and the U.S. Department of Education.

RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF AWARDED GRANT REVENUES OVER ACTUAL EXPENSES For the Year Ended November 30, 2007

Award Number					
•	PA - 22	PA - 20	PA - 25	PA - 26	Total
Grant budgeted award amount	\$ 3,118,071	\$ 36,290	\$ 555,842	\$ 13,476	\$ 3,723,679
Actual grant expenses	(3,077,008)	(36,290)	(555,842)	(13,476)	(3,682,616)
Grant budgeted award amount over (under) actual expenses	\$ 41,063	<u>s -</u>	\$	\$ -	\$ 41,063,

The above schedule shows the grant amounts that were awarded by the U.S. Department of Health and Human Services compared to the actual grant expenditures.

RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

A. SUMMARY OF AUDIT RESULTS

- The auditor's report expresses an unqualified opinion on the financial statements of Rural Utah
 Child Development.
- There was no material weaknesses disclosed during the audit of the financial statements.
- 3. There were no instances of noncompliance material to the financial statements of Rural Utah Child Development, which would be required to be reported in accordance with Government Auditing Standards, disclosed during the audit.
- 4. There were no material weaknesses and one instance of significant deficiencies in internal control which were disclosed during the audit of the major federal award programs of Rural Utah Child Development.
- The auditor's report on compliance for the major federal award programs for Rural Utah Child Development expresses an unqualified opinion.
- There were three audit findings relative to the major federal award program that are required to be reported in accordance with Government Auditing Standards.
- The programs tested as major programs included:
 Department of Health and Human Services Head Start CFDA No. 93.600
 Department of Education Early Reading First CFDA No. 84.359B
- The threshold for distinguishing Types A programs was \$300,000.
- Rural Utah Child Development does not quality as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS

1. Payroll Disbursement Test - Missing Time sheet (Significant Deficiency)

Management has the responsibility to ensure that supporting documentation is on file for all expenditures. During our andit we tested payroll expenditures and noted that one out of 35 payroll disbursements tested did not have a supporting time sheet. Without a timesheet there is no way for supervisors to review and approve the wages paid. Management indicated that the amount appeared valid and the amount was immaterial, therefore, no audit adjustment is needed. Paying wages without supporting documentation could result in hours being inflated an expense not being included in the grant expenses and would therefore, not be reimbursed by the grant. The timesheet appears to have been lost in route to the main office.

Recommendation

We suggest the management of Rural Utah Child Development implement procedures to ensure that payroll expenditures be supported by timesheets approved by the supervisor.

RURAL UTAH CHILD DEVELOPMENT'S SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) For the Year Ended November 30, 2007

B. FINDINGS - FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS (Continued)

2. Cash - Checks clearing before date issued (Significant Deficiency)

Finding

Management has the responsibility to ensure that the cash transactions are recorded when they occur. During our audit we noted that four checks totaling \$3,104 cleared the bank during November 2007, but where dated after year end in December 2007. These checks were for December rent and the expense has been recorded in the proper fiscal year. By dating these checks after they were actually issued, the cash balance on the financial statement is over stated and a prepaid expense account has been understated. This appears to have been done to record the expense in the proper fiscal year.

Recommendation:

We suggest the management of Rural Utah Child Development implement procedures to ensure that checks are dated when issued and then coded to a prepaid account, if necessary, to record the expense in the proper accounting period.

3. Working Capital

Finding

We observe that as of November 30, 2007, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal oversight agent over the Federal grants.

Recommendation

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

C. FINDINGS AND OUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Payroll Disbursement Test - Missing Time sheet (Significant Deficiency)
 See Finding on page 17, B.1.

2. In-Kind - calculation errors (Significant Deficiency)

Finding:

Management is responsible for maintaining supporting documentation for in-kind donations claimed on the financial statements. During our audit we tested the in-kind donations recorded. We traced monthly category totals for individual sites to supporting documentation. Out of 35 transactions selected for testing, there were four which the documentation did not agree with the amount claimed. Based on actual errors of \$187 and other relevant information we estimated the total errors in the in-kind expenses. As a result, \$5,747 claimed as in-kind revenues and expenses were eliminated during the audit. This appears to be small clerical errors made during the accumulation of various pages documenting in-kind donations.

RURAL UTAH CHILD DEVELOPMENT'S SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) For the Year Ended November 30, 2007

- FINDINGS AND QUESTIONED COSTS MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued) C.
 - In-Kind calculation errors (Significant Deficiency)(continued) 2.

Recommendation:
We suggest the management of Rural Utah Child Development develop procedures to ensure that accurate records are maintained for all in-kind revenues claimed.

RURAL UTAH CHILD DEVELOPMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS For the Year Ended November 30, 2007

Section B, Finding #1 - Payroll Disbursement Test - Missing Timesheet (Significant Deficiency)

Correction Action.

Procedures are in place that will require that all time sheets will be on file for the month they are worked in. This will be monitored monthly by the Administrative Secretary.

Section B, Finding #2 - Cash - Checks clearing before date issued (Significant Deficiency)

Correction Action.

Procedures are in place that will require and ensure that checks are dated when issued and recorded to the proper accounting period.

Section B, Finding #3 - Working Capital

Correction Action.

RUCD is working on long term goal to obtain 20% of the Head Start funding would be generated from non-Federal sources.

Section C, Finding #2 - In-kind - Calculation Errors (Significant Deficiency)

Correction Action.

RUCD has put procedures in place requiring, the accountant, check all incoming In-kind to assure that it is all there and figured correctly.

RURAL UTAH CHILD DEVELOPMENT'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS For the Year Ended November 30, 2007

2006 #1. No support for journal entry posted (Reportable Condition)

Finding

Management has the responsibility to ensure that journal entries made to the general ledger are appropriate and have been supported by the appropriate documentation. During our audit we noted the following. The accountant posted various journal entries to move grant revenues from the current year to following year or visa versa. The documentation supporting the journal entries, such as invoices equaling the amount posted, was not placed in the Organizations files. This makes it difficult to verify the validity of journal entries. These journal entries were corrected during the audit.

Recommendation

We suggest the management of Rural Utah Child Development implement a system of documenting each journal entry posted to the accounting records.

Current Status

The Organization appears to have resolved this issue.

2006 #2. Bank Reconciliation (Reportable Condition)

Finding

During our audit we noted that the book balance used in the original bank reconciliation prepared for the fiscal year end did not match the book balance on the trial balance. It appears that checks written prior to the fiscal year end, but voided after the bank reconciliation was prepared, adjusted the balance of cash account. This means that account balances can be adjusted after the period has been closed. As a result, accounting schedules printed as support for balances at a given point in time will no longer agree with the account balance. There appears to be a weakness in the accounting system which allows entries to be made to a closed period.

Recommendation

We suggest that the management of Rural Utah Child Development implement procedures which will ensure that after an accounting period has been closed no adjustments are made to those records.

Current Status

The Organization appears to have resolved this issue.

2006 #3. Segregation of Duties — Cash Receipts (Reportable Condition)

Finding

During our audit we noted that non grant revenues received are given to the accountant to post to the accounting system and to prepare the deposit. As a result, there is not proper segregation of duties for cash receipts. The accountant has access to the asset, posts entries to the general ledger system and also prepares the bank deposit. This means that he could take the asset, and then alter the receipts by not recording the receipt, so that the missing asset would go undetected. This appears to be as a result of an attempt to run the office efficiently

Recommendation

We suggest that the management of Rural Utah Child Development implement either or both of the following procedures. 1) Give the accountant copies of the cash received to post to the accounting record, and have someone besides the accountant prepare the deposit and take the deposit to the bank. 2) Have someone besides the accountant open the mail and electronically deposit the checks directly to the bank, then give the checks to the accountant for posting to the system.

Current Status

The Organization appears to have resolved this issue.

RURAL UTAH CHILD DEVELOPMENT'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued) For the Year Ended November 30, 2007

2006 #4. Segregation of Duties - Cash Disbursements (Reportable Condition)

Finding

During our audit we noted that there is not proper segregation of duties for cash disbursements. The accountant has access to the asset, posts to the system and also sends out the payments. This means that the accountant could have checks signed then modify them to pay personal bills etc. and then adjust the accounting records so that it would go undetected. The accountant could also prepare checks for personal expenses, forge the signatures and then adjust the accounting records so that it would go undetected.

Recommendation

We suggest that the management of Rural Utah Child Development have the accountant print checks, give the checks with appropriate back-up to the check signers and have someone else send out the payments. We also suggest that the management of Rural Utah Child Development have the signers scan the cleared checks on the bank statement for appropriateness and review the supporting documentation for checks they are unfamiliar with.

Current Status

The Organization appears to have resolved this issue.

2006 #5. Working Capital

Finding

We observed that as of November 30, 2006, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal cognizant agent over the Federal grants.

Recommendation

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

Current Status

Management is aware of this and is developing a plan to correct the situation. A similar finding was noted in the current year.

2006 #6. Support for Income Eligibility Summary Sheets (Reportable Condition)

Finding

Management has the responsibility to maintain documentation to show compliance with the grant requirements regarding income eligibility. During our andit we noted that the lists of enrolled children identifying the child's income eligibility status, which are used to create the income eligibility summary sheets, had been discarded once those sheets had been created. RUCD was unable to regenerate the lists for use by the auditors. As a result, there was no direct link between the system which documents income eligibility status and the documentation of the RUCD's compliance with the grant's income eligibility rule. However, we were able to test the income eligibility summary sheets by using an annual income eligibility summary sheet combined with the rolls for the respective month. It appears that the individual responsible for this was not aware of the need to keep the documentation used to test compliance with the grant's income eligibility rule.

Recommendation

We suggest that the management of Rural Utah Child Development insure that the documentation used to test compliance with the grant's income eligibility rule be retained until the audit is complete, or for a minimum of three years, which ever is longer.

RURAL UTAH CHILD DEVELOPMENT'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued) For the Year Ended November 30, 2007

Current Status

The Organization appears to have resolved this issue.

2006 #7.

Noncompliance with Davis Bacon Act (Reportable Condition)

Finding

Management has the responsibility to ensure that the Organization complies with all laws relevant to major federal programs for which RUCD receives funding. During our audit we noted that the organization did not require construction contractors it hired to comply with the requirements of the Davis Bacon Act. This could result in a lawsuit by other contractors which submitted bids based on compliance with the Davis Bacon Act. This appears to have been caused not having experience with construction contracts funded by a federal program.

Recommendation

We suggest the management of Rural Utah Child Development ensure that the requirements of the Davis-Bacon Act are followed when they incur cost for construction.

Current Status

The Organization appears to have resolved this issue.